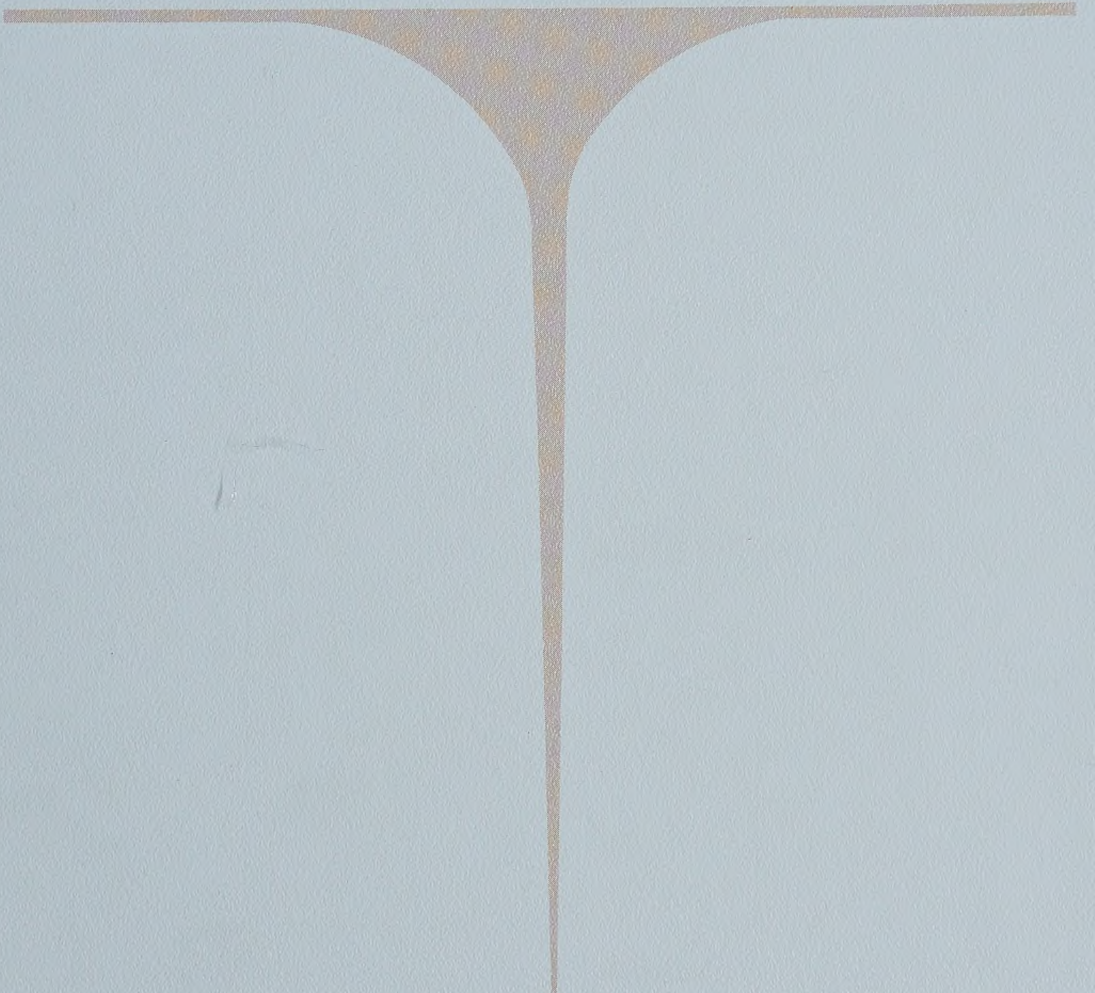


MATTAGAMI LAKE MINES LIMITED

(NO PERSONAL LIABILITY)



ANNUAL REPORT 1965

MATTAGAMI LAKE MINES LIMITED
(NO PERSONAL LIABILITY)

HEAD OFFICE: MATAGAMI, QUEBEC

EXECUTIVE OFFICE 44 King St. West, Toronto, Ontario

MINE OFFICE Matagami, Quebec

MINE MANAGER M. W. AIRTH

AUDITORS PEAT, MARWICK, MITCHELL & CO.,
Toronto

REGISTRAR AND TRANSFER AGENT EASTERN & CHARTERED
TRUST COMPANY,
Vancouver, Calgary, Saskatoon, Winnipeg,
Toronto, Montreal, St. John, N.B.,
Halifax, Charlottetown, St. John's, Nfld.

SOLICITORS MILLER, THOMSON, HICKS,
SEDGEWICK, LEWIS & HEALY

BANKERS CANADIAN IMPERIAL BANK
OF COMMERCE
THE BANK OF NOVA SCOTIA

DIRECTORS

J. M. R. CORBET	Toronto
G. A. GORDON	Vancouver
H. E. LANGFORD	Toronto
R. LETOURNEAU	Quebec
T. H. McCLELLAND	Vancouver
R. V. PORRITT	Toronto
J. B. REDPATH	Toronto
W. S. ROW	Toronto
K. J. SPRINGER	Toronto

OFFICERS

W. S. ROW	President
T. H. McCLELLAND	Vice-President
R. C. ASHENHURST	Secretary and Treasurer
B. C. BONE	Assistant Treasurer

REPORT OF THE DIRECTORS

To the Shareholders:

Your Directors submit the Seventh Annual Report of your Company for the year ended December 31, 1965, including the Report of the Manager, the Financial Statements for the year and the Auditors' Report thereon.

Tonnage milled was 1,406,154 or an average of 3,852 tons per day, an increase of 10 per cent over 1964. Average grade of ore treated was slightly lower than for 1964.

Net profit of \$14,631,377 showed an increase of 13 per cent mainly due to higher metal prices and a reduction of \$600,000 in interest charges. The thirty-six month period free of income tax commenced December 1, 1963.

Debts were reduced by a total of \$11,000,000 through the repayment of \$5,000,000 of the bank loan during the year and the redemption of \$6,000,000 of secured income debentures at the year-end. Expenditures on capital account amounted to \$3,000,000.

A further redemption of \$4,400,000 of income debentures will be made on April 30, 1966.

AT THE MINE

Operations at the mine were normal. After mining over 1,400,000 tons ore reserves show a reduction of only some 600,000 tons because some 800,000 tons of new ore were added.

In the concentrator metal recoveries improved appreciably.

An additional thirty housing units for employees were completed, bringing the total to 181. These, along with the attractions of a good new school and many other facilities of a modern town including paved streets, have assisted greatly in coping with the problem of a severe general shortage of men throughout the north.

CANADIAN ELECTROLYTIC ZINC

The Valleyfield reduction plant, in which your Company has a 62½ per cent interest, produced nearly 74,000 tons of slab zinc in 1965, an average of just over 200 tons per day. Rated capacity of the plant

is now in excess of 250 tons per day, but production is currently limited by available roasting facilities to about 235 tons per day.

Capacity of the plant is being increased to 400 tons per day, and roasting facilities are being installed to handle the additional feed to the plant. Waste sulphur dioxide gas from the roasters will be converted into 135,000 tons of sulphuric acid per year for sale to the adjacent plant of St. Lawrence Fertilizers Ltd., in which Canadian Electrolytic Zinc has a 25 per cent interest. The cost of this expansion is estimated at \$16,000,000, of which your Company's share is \$10,000,000. Completion of construction at the zinc plant and the adjacent St. Lawrence Fertilizers plant are scheduled for the second half of 1966.

General Smelting Company of Canada, wholly owned by Canadian Electrolytic Zinc, completed the move to its new Burlington plant during the summer of 1965. Facilities and the quality of zinc and aluminum products have been considerably improved.

ZINC MARKETS

Once again zinc metal in the Free World broke previous records with increases in consumption of 3% to 3,630,000 tons and in production of 5% to 3,435,000 tons. Canada enhanced its leading position as mine production rose 25% to 910,000 tons. United States Government stockpile releases totalling 275,000 tons met the temporary shortage in the United States pending elimination in November of the restrictive import quotas. Outside the United States consumption was relatively steady and industry stocks increased modestly from previous inadequate levels.

Prices were steady throughout the year at £110 per long ton, equivalent to 13¾¢ U.S. per pound overseas, 14½¢ U.S. per pound for Prime Western at East St. Louis and 14½¢ Canadian funds in the domestic market.

A 7½% increase in metal production this year will ensure supplies for growing consumption, particularly in the United States and balance should be maintained in all market areas, provided there are no further stockpile sales. To date the U.S. administration has offered stockpile metal only when critically

needed and at the established price of the major sellers. Any deviation from this sales policy for government revenue purposes would seriously disrupt the market, particularly if prices were discounted to attract consumers away from their traditional industry suppliers.

COPPER

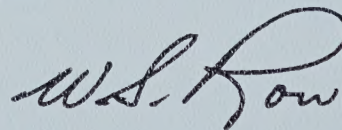
Record refined production of 4,145,000 tons was insufficient to satisfy the strong industrial demand which was inflated by concern over possible interruption of supplies from Africa and Chile and rising U.S. defence requirements.

Prices for marginal copper on the commodity exchanges rose to extreme levels and at times were almost double the prices of major producers which increased 5½¢ U.S. per pound to 38¢ in markets outside the United States. Under Government influence, the American producers held their prices at the 36¢ level. The further increase on January 3rd this year by foreign producers to 42¢ U.S. per pound brought the Canadian domestic price to 45¢ Canadian funds per pound.

* * * * *

We take pleasure in acknowledging and recording our appreciation of the very effective efforts of Mr. M. W. Airth, Manager, and his staff members and all other employees during the year.

On behalf of the Board,



President.

Toronto, Ontario,
February 17th, 1966.

REPORT OF THE MANAGER

The President and Directors

MATTAGAMI LAKE MINES LIMITED

Operations at the property during the year ended December 31st, 1965 are reviewed in the following report.

The mill and plant operated at capacity for the full year. Average daily mill rate during 1965 was 3,852 tons compared with 3,503 tons daily during 1964.

PRODUCTION

	1965	1964
Ore Milled — dry tons	1,406,154	1,282,072
Daily Rate	3,852	3,503
Calculated Grade:		
Zinc %	11.7	12.8
Copper %	0.69	0.71
Gold oz/ton	0.015	0.014
Silver oz/ton	1.07	1.15
Zinc Concentrate produced		
— short dry tons	294,822	275,674
Grade: Zinc %	52.2	52.8
Copper Concentrate produced		
— short dry tons	38,325	36,129
Grade: Copper %	19.61	18.19
Gold oz/ton	0.181	0.183
Silver oz/ton	9.15	9.76

The zinc concentrate was shipped to the Canadian Electrolytic Zinc Plant at Valleyfield, to Quebec City for export, and to the United States. The copper concentrate was shipped to the Smelter of Noranda Mines Limited.

MILLING

The mill operated 98.47% of the possible time during the year and metal recoveries were as follows:

	1965	1964
Zinc	92.0	88.4
Copper	73.1	71.2

Operations were normal with emphasis placed on experimental work to increase metal recoveries and the grades of concentrates.

MINING

Mine development was directed toward stope preparation in both No. 1 and No. 2 orebodies. Access drifts were driven for exploratory diamond drilling of the tuffite horizon below the 750 level.

SUMMARY OF DEVELOPMENT FOR 1965

Levels	Level Development		Stope Development		Diamond Drilling	
	Drift X-Cuts Feet	Slash Cu. Ft.	Advance Feet	Slash Cu. Ft.	No. of Holes	Total Feet
150	133	250	2,822	11,000	4	297
350	3,195	4,270	8,914	41,280	37	8,312
550	643	1,175	8,549	40,988	10	1,102
750	3,265	27,323	5,993	58,081	21	13,583
960	132	1,180	—	—	—	—
Totals:	7,368	34,198	26,278	151,349	72	23,294

During the year 1,407,518 tons of ore were hoisted. This tonnage had an average grade of 11.7% Zn and 0.68% Cu.

In addition 80,097 tons of waste were hoisted and used for yard levelling and road construction.

Grouting done in development headings and in the stopping areas to eliminate water consumed 1,801 bags of cement.

Extension rod drilling amounted to 464,518 feet of two-inch diameter hole and at year end there was a drilled-off tonnage in the stopes of 1,253,922 tons. This compares favourably with the drilled-off tonnage in 1964 which was 1,221,205 tons.

Mill feed was obtained from the following places:

Working Places	Tons	% Zn	% Cu
750 F 24 Stope	94,592	12.5	.91
750 F 26 Stope	98,687	9.1	.91
750 F 29 and 31 Stope	67,569	9.2	.85
750 F 34 Stope	73,712	12.5	.57
550 M 41 Stope	265,653	7.2	.59
750 P 22 Stope	10,614	8.1	.32
750 P 26 Stope	165,236	15.2	.84
750 P 31 Stope	109,020	21.4	.67
750 P 34 Stope	101,150	20.5	.59
750 H 41 Stope	5,208	16.4	.79
750 P 29 Stope	5,117	15.2	.58
750 H 44 Stope	96,255	13.4	.58
550 P 36 Stope and 38 Stope	27,411	7.7	.48
750 F 30 Pillar	108,592	7.5	.73
Miscellaneous Stopes	255	8.0	.43
Stope Total	1,229,071	12.2	.70
Stope Development	178,447	8.5	.58
Total Production	1,407,518	11.7	.68

ORE RESERVES

Mining was confined to the No. 1 Orebody and 1,406,154 tons grading 11.7% Zinc and 0.69% Copper were removed. After taking into reserves additional ore outlined by diamond drilling, and lower grade material now economic due to higher metal prices, the proven ore above the 750 foot level, without allowance for dilution, now stands as follows:

Tons	Zinc %	Copper %	Gold oz./ton	Silver oz./ton
17,655,906	10.7	0.68	.014	1.15

Diamond drilling of No. 2 orebody was completed during 1965, and proven ore reserves in this orebody, without allowance for dilution, now amount to the figure shown below.

Tons	Zinc %	Copper %	Gold oz./ton	Silver oz./ton
1,799,139	10.1	0.75	.013	0.99

Total ore reserves in both No. 1 and No. 2 orebodies are as follows:

Tons	Zinc %	Copper %	Gold oz./ton	Silver oz./ton
19,455,045	10.6	0.69	.014	1.13

From the foregoing it may be noted that an additional 800,000 tons of ore were placed in reserves during 1965.

Stope production is proceeding in a normal manner and the stopes are being filled with classified tailings fill as they are completed. During the year 399,101 dry tons of fill were placed. There are now four stopes filled and two filling. Test work is continuing in an effort to produce a consolidating backfill.

DIAMOND DRILLING

One drill was used on surface to explore the favourable andesite-rhyolite contact down to the 750 foot horizon strike and in some other untested areas. Favourable structure with low metal values was encountered.

Two drills were used underground to explore the favourable andesite-rhyolite contact below the 750 foot level. By year end 800 feet of strike length had been explored. Only low metal values were obtained. A great deal more work remains to be done.

SURFACE CONSTRUCTION

A 1,200 K.W. Mirrlees diesel generator was installed as standby power to replace the temporary units used during construction.

PERSONNEL

The average number of employees on the payroll for the year was 455. The operating efficiency was 11.2 tons milled per man shift worked. This compares favourably with the 1964 figure of 10.5 tons milled per man shift worked.

During the year a safety supervisor was hired and a comprehensive programme started. Our accident record in 1965 was about the same as that in 1964 and slightly better than the Quebec average. An improvement is looked for in 1966.

The turnover in personnel continues high but the company housing and good working conditions have produced a hard core of steady employees.

GENERAL

Thirty additional housing units were built under contract by the Company and all were occupied by year end. The Company now owns 181 units in the Village of Matagami.

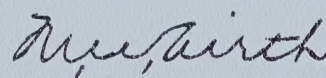
An additional 25 miles of the Amos-Matagami highway was paved by the Department of Highways of the Province of Quebec. Paving was also started in the Village of Matagami. These improvements are much appreciated by all residents and the Company.

Some work is being done by Federal Provincial Departments of Indian Affairs to assist the Indian settlement on the outskirts of the Village of Matagami. Sewers and water and a supervised bath house are being installed as a first step to encourage the Indians to take a more active part in the community.

The employees Recreation Association enjoyed another successful year.

One again I wish to acknowledge with thanks the assistance and support of the President, Officers, and Directors of the Company.

And in conclusion I take great pleasure in acknowledging the hard work, loyalty, and full co-operation of the staff and all employees throughout the year.



M. W. AIRTH, P.Eng.,
Mine Manager.

February 15, 1966.

MATTAGAMI LAKE MINES LIMITED *(Incorporated under the laws of Quebec)*
(NO PERSONAL LIABILITY)

BALANCE SHEET -

ASSETS

Current assets:	1965	1964
Cash	\$ 197,539	66,149
Short term notes receivable	1,500,000	—
Settlements receivable	2,908,950	2,499,509
Other accounts receivable	443,586	356,030
Concentrates and metal at reduction plants and in transit at estimated net realizable value	7,955,998	6,333,900
Prepaid expense and deposits	79,267	14,796
	<u>13,085,340</u>	<u>9,270,384</u>
Fixed assets, at cost less accumulated depreciation:		
Buildings, plant and equipment:		
Mine site	18,061,370	17,236,456
Zinc plant (note 1)	12,389,208	10,147,103
	<u>30,450,578</u>	<u>27,383,559</u>
Less accumulated depreciation	5,781,437	2,738,356
	<u>24,669,141</u>	<u>24,645,203</u>
Mining property and rights	2,503,021	2,503,021
Land — zinc plant	85,640	91,620
	<u>27,257,802</u>	<u>27,239,844</u>
Investments:		
In partly owned subsidiaries (note 2):		
Shares at cost	738,493	726,500
Advances	1,371	27,968
	<u>739,864</u>	<u>754,468</u>
In other companies, at cost	748,369	—
	<u>1,488,233</u>	<u>754,468</u>
Other assets:		
Preproduction and development expenses at cost less amounts written off	7,557,238	9,368,241
Mine stores and supplies, at cost	684,287	723,816
Discount on debentures less amount amortized	363,630	597,206
Organization expense	—	6,950
	<u>8,605,155</u>	<u>10,696,213</u>
	<u>\$50,436,530</u>	<u>47,960,909</u>

See accompanying notes to financial statements

AUDITORS' REPORT

We have examined the balance sheet of Mattagami Lake Mines Limited as of December 31, 1965 and the statement of net income and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Ontario,
March 9, 1966.

DECEMBER 31, 1965 with comparative figures for 1964

LIABILITIES

Current liabilities:

	1965	1964
Bank loans — secured by guarantees	\$ —	5,000,000
Accounts payable and accrued liabilities	1,255,411	1,079,651
Sinking fund payment on debentures due April 30, 1966	4,400,000	—
Accrued interest on debentures	485,592	1,992,822
Quebec mining duties payable	1,281,414	1,105,700
	<u>7,422,417</u>	<u>9,178,173</u>

Long-term debt (note 3):

6% Secured income debentures, Series A, maturing April 30, 1975 ..	12,000,000	18,000,000
Less sinking fund payment due April 30, 1966	4,400,000	—
	<u>7,600,000</u>	<u>18,000,000</u>

Shareholders' equity:

Capital stock:

Shares of a par value of \$1 each. Authorized 7,000,000 shares; issued 6,600,000 shares	6,600,000	6,600,000
Premium on shares	1,499,998	1,499,998
	<u>8,099,998</u>	<u>8,099,998</u>
Retained earnings (notes 3 and 4)	27,314,115	12,682,738
	<u>35,414,113</u>	<u>20,782,736</u>

Approved on behalf of the Board:

W. S. ROW, Director.

J. B. REDPATH, Director.

<u>\$50,436,530</u>	<u>47,960,909</u>
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TO THE SHAREHOLDERS

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying balance sheet and statement of net income and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company at December 31, 1965 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and application of funds presents fairly the information shown therein.

PEAT, MARWICK, MITCHELL & CO.,

Chartered Accountants.

MATTAGAMI LAKE MINES LIMITED
(NO PERSONAL LIABILITY)

STATEMENT OF NET INCOME AND RETAINED EARNINGS

Year ended December 31, 1965
with comparative figures for 1964

	1965	1964
Gross value of metals produced	\$46,026,074	43,197,873
Less smelter and transportation charges	14,682,721	14,756,462
	<u>31,343,353</u>	<u>28,441,411</u>
Expenditures:		
Development, mining and concentrating	5,182,977	4,530,664
Zinc reduction plant expenses	3,302,731	3,048,579
Administration and corporate expense	127,267	157,422
	<u>8,612,975</u>	<u>7,736,665</u>
	22,730,378	20,704,746
Depreciation and amortization:		
Buildings, plant and equipment	3,045,058	2,738,356
Preproduction and deferred development expenditures	2,474,824	2,342,060
Debenture discount	233,576	57,794
	<u>5,753,458</u>	<u>5,138,210</u>
Net operating income	16,976,920	15,566,536
Other income — interest	102,620	—
	<u>17,079,540</u>	<u>15,566,536</u>
Other charges:		
Interest on debentures	1,080,000	1,080,000
Interest on bank loan	87,013	698,098
Organization expense written off	6,950	—
	<u>1,173,963</u>	<u>1,778,098</u>
	15,905,577	13,788,438
Quebec mining duties	1,274,200	1,105,700
Net income for the year	14,631,377	12,682,738
Retained earnings at the beginning of the year	12,682,738	—
Retained earnings at the end of the year	<u>\$27,314,115</u>	<u>12,682,738</u>

**NOTES
TO FINANCIAL STATEMENTS
December 31, 1965**

1. The program to expand the facilities at the zinc plant will require expenditures by the company in 1966 of approximately \$8,000,000.
2. The Company's share of the net loss of the subsidiary companies for the year ended December 31, 1965 was \$52,876 and of their retained earnings since acquisition was \$56,699 at that date. These amounts are not included in the accompanying statements.
3. Under the Deed of Trust and Mortgage (as amended) securing the 6% Secured Income Debentures, annual payments for a sinking fund for retirement of the debentures are to be made to the Trustee commencing on April 30, 1966. The method of computing the annual sinking fund payments is detailed in the Deed and may be summarized as being 80% of the excess of cumulative net operating profits (as defined and which approximate net profits before amortization and depreciation) over cumulative sinking fund payments, repayments of bank loans obtained during the construction period, and an amount of \$10,000,000 for fixed asset additions.
4. Payment of dividends or any other distribution on any shares of capital stock may not be made while any Secured Income Debentures are outstanding.
5. Under the provisions of The Income Tax Act (Canada), no income taxes are exigible on the Company's income during a three year exempt period commencing December 1, 1963.

MATTAGAMI LAKE MINES LIMITED
(NO PERSONAL LIABILITY)

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1965
with comparative figures for 1964

Funds provided:	1965	1964
From operations:		
Net profit	\$14,631,377	12,682,738
Charges not requiring cash expenditure:		
Depreciation and amortization	5,753,458	5,138,210
Organization expense	6,950	—
	20,391,785	17,820,948
Reduction in mine stores and supplies	39,529	—
Total funds provided	20,431,314	17,820,948
 Used as follows:		
Purchase of fixed assets (net):		
Buildings, plant and equipment:		
Mine site	826,890	1,577,125
Zinc plant	2,242,105	611,403
Zinc plant land	(5,980)	212
	3,063,015	2,188,740
Repayment of debentures	6,000,000	—
Provisions for repayment of debentures	4,400,000	—
Purchase of investments	733,765	591,718
Development expenditures deferred	663,822	660,335
Provision for repayment of debenture interest	—	912,822
Purchase of mine stores and supplies	—	23,930
Total funds used	14,860,602	4,377,545
Addition to working capital	\$ 5,570,712	13,443,403

